

**MARICOPA COUNTY BOARD OF SUPERVISORS MINUTE BOOK**

**SPECIAL STUDY SESSION  
November 6, 2002**

The Board of Supervisors of Maricopa County, Arizona, convened in a Joint Special Study Session with the Hospital and Health System's Board of Directors at 12:00 p.m., November 6, 2002, in the Supervisor's Conference Room, Tenth Floor, 301 W. Jefferson, Phoenix, Arizona, with the following Supervisors present: Don Stapley, Chairman; Fulton Brock, Vice Chairman; Andy Kunasek (entered late), Max W. Wilson and Mary Rose Wilcox. Hospital Board Members present: Charles Shipley, Bill Bruno, and Merwin Grant (entered late). Also present: Norma Risch, Deputy Clerk of the Board; Shirley Million, Administrative Coordinator; David Smith, County Administrative Officer; and Paul Golab, Deputy County Attorney. Votes of the Members on action items will be recorded as follows: (aye-no-absent-abstain).

**MARICOPA INTEGRATED HEALTH SYSTEMS – YEAR-TO-DATE FINANCIAL STATUS**

Chairman Stapley thanked those in attendance for coming on short notice and said that this study session was called to take a closer look at the financial circumstances of the Maricopa Integrated Health System (MIHS). He indicated that this would be an opportunity for both boards to study and discuss the issues informally with open and informal dialogue in an effort to identify the issues and search for solutions. (ADM2100)

David Smith reported his misgivings on the success of the "Turn Around Plan" to stabilize the MIHS financial performance over the next three quarters. He said that if the Turn Around Plan does not succeed, any deficit in the MIHS budget at year end will have to be compensated for from the General Fund. He warned that this, compounded by the MIHS \$2 million loss in the 2001-2002 fiscal year, could trigger a repeat of the ruinous trend of budgetary deficits from the early to mid 1990s. Mr. Smith indicated that he has based this prediction on his review of the first five items on the following list.

1. Poor Performance by the Four Health Plans
2. The Turn Around Plan
3. Investing in Capital to Generate Profits
4. Did Not Retain Cash for a Downturn
5. Uncompensated Care
6. Summary
7. CAO Recommendations

Mr. Smith indicated that cost-cutting changes must be made in the current business plan to compensate for the decrease in the health plan revenues. The four (out of eight) strategic goals that are not now being met are cash balance, accreditation, health plan profits and financial performance. Several of these are expected to extend as probable deficiencies into the 2002-2003 performance plan objectives if necessary changes are not made. Mr. Smith expressed particular concern because MIHS deficits are capable of damaging the County General Fund and the County's credit rating due to the semi-autonomous status of the health system. He outlined cost-cutting remedies for the dual-boards to consider and reinforced his presentation with charts and a video recap outlining the increased millions of dollars lost in health service programs during the past fiscal year. He stated that the \$13 million set aside in a County subsidy will "not come close" to covering the current and projected losses for this fiscal year.

Mr. Smith concluded his remarks by saying that the administration's expectation is that every single department in County Government is obliged to stay within their budget. He said that his responsibility to both Boards is to notify them of any fiscal threat to the County's solvency projected through the studied and thorough evaluations that he and the County management team make. He explained that if there are any policy changes that he feels should be looked at, he feels it is his duty to also present those findings to the

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Board Members. Possible changes he referenced included limiting the amount of uncompensated care, limiting the amount of services provided, aggressively cost-cutting and making some changes to services that would reflect the progressive cost reduction approach that he feels must be addressed. He stated that the Turn Around Plan, that was presented and accepted the last week in September 2002, obviously does not go far enough because the trend lines are continuing downward.

Chairman Stapley asked that the remainder of the meeting follow an outline with Sandi Wilson, Deputy County Administrator, and Leo Kessler, Deloitte Touche representative, making their presentations followed by Mark Hillard, MIHS CEO. The meeting would be concluded with an informal question and answer period and he encouraged members of both Boards, as well as Dr. Cannula and other medical staff present, to participate so that a thorough understanding would result for all.

Ms. Wilson said she would present a view of the overall general condition of the County and address some troubling trends that have been seen in the health system. She said that Mr. Kessler would talk about what the expectations had been for the Turn Around Plan, the results of that plan, and also give a proposed plan for moving forward. She said that the financial condition of Maricopa County is strong but there are many "troubling clouds ahead of us." She asked the Hospital Board Members to take a broader view than they may have done in the past, which was to look at MIHS in isolation from the rest of the County. She said it was important for the Hospital Board to realize that Maricopa County is the "banker" for the Integrated Health System and "frankly, we're your only line of credit so it's important that we are healthy. Our health reflects on your health."

Chris Bradley reported that the County General Fund is finely balanced at this point. He said that both the expenditure budget and revenues are tight but they had projected conservative numbers when making up the budget, which had proven wise because "it is still in the black and holding it's own so far." This is partially due to requests to the operating departments in the county to make a number of reductions and tighten their budgets to respond to this year's fiscal situation. The operating departments of the County, collectively through the first quarter of this fiscal year, were only \$76,000 under budget which is less than 1/10<sup>th</sup> of a percent.

Other large issues, such as the Ring Decision, will impact the future financial and general fund stability of the county. These include a general operating contingency of \$20M, a potential sales tax shortfall of \$9M, and the Ring decision, which could have a \$15M impact. Other measures that could have a \$2M to \$6M impact include probation caseload growth, contract counsel budget overruns, correctional health overbudget costs, mandated restoration to competency costs, further State budget cuts, MIHS operating losses due to dispro share threats and further draining of the General Fund resources due to continued and unforeseen MIHS losses, etc. Issues in the next fiscal year budget that could drain the General Fund are increases to the ASRS employer contributions which are expected to increase by nearly 150%; anticipated increases in employee health and dental premiums; and the continuing State budget crisis impact on Maricopa County.

Sandi Wilson then reported on the general status of the business of the County health care system and "what about this is troubling to us." She said, "health care is a risky business ... and government, as you know, is and probably should be risk-adverse. There is more reason to be concerned when fiscal difficulties are prevalent, as they are now, and that gives us more reason for concern and for government to act conservatively. A poor economy results in a higher uncompensated care cost at hospitals and at the County's hospital in particular, which sees higher than average number of uncompensated care patients than any other hospital in the Valley." Ms. Wilson continued, "While this is admirable it is also a problem for our budget." She added, "The trends that we are showing you are alarming and they need to be

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addressed.” She indicated that she would not offer any solutions on how to address them. The MIHS average daily cash position has deteriorated from \$85M in July 2000 to \$20M in October of 2002. She indicated that the downside has leveled off during the past year but added, “it isn’t growing and it needs to grow to indicate that it is in a solid financial position.” MIHS expenses were subsidized by General Fund monies for many months during that downside.

Discussion ensued on whether five-weeks was long enough for the Turn Around Plan to prove its worth or if concerns of making changes in it were premature. Also whether “Turn Around Plan” was a misnomer and it should more correctly be termed a “mid-course correction” because changes and corrections are being made to the plan daily and weekly as it is being implemented and the original plan no longer exists. The main question was determined to be, “what else needs to be done and/or is the Turn Around Plan enough.”

Ms. Wilson stated that the essence of OMB’s concerns are the increasing number of critical issues affecting the County’s future that include the federal and state economy, state budget cuts and new criminal justice mandates that weren’t anticipated. She stated that these are all large issues and all are also largely outside of management’s control. She stated, “They will happen to us and we will respond to them. The MIHS losses are really the only major factor that the County has any type of control over and it is important for us to find a way to secure our own situation and to protect ourselves – both in the health system and the rest of the County – and isolate ourselves as best we can from the losses that are happening in the healthcare system.”

Leo Kessler said that the Turn Around Plan was mainly directed at the provider side of the MIHS question and its \$31M loss, and he would address how he believed the provider side would react to a turn-around situation. He said, “We have a \$31M loss. Where do we want to be when we turn the hospital around?”

Chairman Stapley said, “You confuse me when you talk about the \$31M loss. Is that a projected loss based on the current budget?”

Mr. Kessler said that is the budget-as-adopted projected loss.

Chairman Stapley said, “So, if nothing changed from the first quarter returns for the next three quarters we’d end up with a \$31M loss.” Mr. Kessler agreed, adding, “For the delivery system.” Sandi Wilson interjected that the \$31M was the budgeted loss for the delivery system without the plan.

The Chairman asked, “We were going to make \$26M on the medical plans and we were going to lose \$31M on the hospital delivery system?” She said, “Correct.”

Mr. Kessler spoke of benchmarks in comparison with other hospitals and enumerated a list of issues a turn-around plan should address to minimize loss within the delivery system. He said the conservation of cash is critical because “cash is king” and the plan must provide rapid performance improvements to cut losses. Other issues mentioned included working through the transition of management, cultural changes, reevaluation of the affordability of the system using current vs. long term vision, bond indebtedness, individual and collective clinical support, changes that need to be made, reduction in the level of uncompensated care, the supply chain including skyrocketing cost increases in pharmaceuticals, an improved revenue and collections cycle from patient registration to the account being paid in full, current physician compensation contracts, size and location of the facility, medical school and educational possibilities and the review of possible grants and aid, and identification of potential affiliation strategies which give several opportunities that are not available to a stand-alone facility such as MIHS. He said these

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issues must be put into several categories, immediate or quick hits; three to six month opportunities; nine to twelve month opportunities and opportunities for the next year.

Supervisor Brock asked Mr. Kessler to compare the timeliness of the Supervisor's receipt of critical information with other systems he has observed around the country, referencing a concern that the Board wasn't notified early enough of the critical financial problem that was developing under the previous management (Compass).

Mr. Kessler replied, "I think there is improvement needed with the speed at which you receive the data. I think if I were to compare the packet that Board members receive on a monthly basis to other board packets that I've seen and helped develop, I think you're missing some of the detail which may actually help you understand what position you're in, either currently or long term." He qualified that by saying he doesn't believe the hospital management is hiding things but that "over a period of time it has digressed to a point that you're now getting very summary information and I think you need to have more detail around the options."

Hospital Board Member Merwin Grant asked for more specific information on what was not being provided.

Mr. Kessler replied that there is no single hospital characteristic that says whether a good job or a bad job is being done because it is a combination of a lot of different statistics. "For instance in your budget packet one of the things I would expect the Board and Finance Committee to have seen on a routine basis is the financial statement which identifies budget variances of the major expense categories along with the statistics and volumes that you're seeing already there. I think that gives you an idea of where your budget problems are and a fiduciary responsibility to address questions to hospital finance and hospital management that says 'why are we at "X" percentage above or below this particular expense?' for starters. Also, some explanation in normalizing statements that should be done on a month-to-month basis, for instance, basically every organization including the County, has one-time events that hit during a given month that were never anticipated. They could be positive, they could be negative." He said that those were two of the primary things he would suggest.

Mr. Kessler continued the discussion on this topic that included the following points:

Breakdown of the delivery system expense by major categories: Mr. Kessler maintained that this report was actually too detailed giving too much data to comprehend and it should be summarized.

There should be an intermediate step between what is presented at the Hospital Board Meeting and what is in the detailed packet on financial statements to the Board. The Financial Committee gets a very summarized version of the income statement, which is the bottom line. The information is "there" but not always in an easily understandable format.

Supervisor Brock said he was surprised at the amount of loans that are not being reflected in the financial statement back to the MMC from the General Fund and the Integrated System. He believes it is very difficult for any Board to get a true picture of the magnitude of the losses that are being incurred by the hospital itself from the massive amount of loans that are coming horizontally from the Integrated System and the accumulated loans that are carrying and rolling forward from the General Fund that are not being reflected. He asked for OMB or Mr. Smith to comment on the true amount of loans that the hospital actually has and requires to function.

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Ms. Wilson responded that "actual loans to the health system are reflected in their financial statements" and said that Tom Manos may have the actual amounts. She indicated that interest is accumulated on a monthly basis and the cost for any long-term debt is also shown in the financial statements. She said "what is not shown in their financial statements is that we have not been accruing interest on any expendable fund balance transfer, because we consider that a gift. It's shown as contributed capital on the balance sheet. We had \$8.7M last year that transferred from the General Fund into the Health System that was considered more of a gift, and interest is not accruing on that."

Discussion ensued on the Arizona Auditor General's statements concerning a \$57.5M cash deficit that existed as of June 30, 2002, despite a \$79.4M subsidy received from the General Fund during the fiscal year, and if this had appeared on the financial statements of the Integrated System. It was determined that there are legal restrictions with regards to the ALTCS and AHCCCS plans on moving money around with a deficit on one side and surplus on the other. The net amount is the important figure and it was said that the \$79M is a "case-in-point." It was basically explained that certain monies received must be passed through the General Fund before they can be distributed back to a department.

Supervisor Brock said he wanted to know about the "horizontal loans" being done. "How is the hospital tracking back to the General Fund or showing the actual losses incurred by borrowing all this money from the General Fund or from the Ancillary components of the Integrated System?"

Tom Manos, Chief Financial Officer, responded that the \$79M referenced was made-up of five components and that the language used was confusing with unusual things being termed as a subsidy by the State. These funds were all Health System funds but were excess funds in some of the other components of the Health System, i.e., the Health Plans. These Health Plan funds are routinely moved over to the hospital portion of the health system budget where cash is needed. To do this statutorily, they must be moved from the Health Plan to the General Fund and then moved from the General Fund to the hospital budget. He indicated that they have never considered this as a subsidy or a loan but as money that already belongs to the health system as a whole in one component or another. To move funds from one portion of the Health Systems to another they must be moved through the General Fund. Discussion continued.

Supervisor Brock said he understood that there are private hospital systems around the country that are "breaking even" and he wanted those systems to be identified to see how they are doing this.

The Chairman called for a two-minute break at this time.

Mark Hillard, Director of Maricopa Integrated Health System, spoke on the Turn Around Plan and said he believed that this plan had been delivered as directed under the 90-days after employment requirement set for the management team on July 1, 2002. His slide presentation and corresponding handout directed the audience towards the impact on MIHS from the delivery system's budgeted deficit and was accompanied by an explanation from Mr. Hillard and team members. He believes that the Turn Around Plan was conservatively stated and it will create the necessary steps to get the health system to a break-even position. At that time the strategic direction that should be taken would be more clear. He said this Plan could give needed time to do something this year to create a revenue stream that all other county hospitals in the country enjoy. That would include receipt of disproportionate share and/or tax revenues.

He asked, "Are we envisioning a health system that is a large, tertiary, academic system that offers the highest quality of care that we can all be proud of and lead, not just all Phoenix hospitals, but hospitals throughout the United States. We have the recipe for success at Maricopa Integrated Health System." He

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countered this with, "Or, is it your wish to have a health system that is scaled down and does a small amount of managed care with limited academics and no uncompensated care? I think we're at that decision point." He pointed out that the Turn Around Plan would give them time to make that decision and set the policy.

He said that they had only put things in the Turn Around Plan that they knew could be done and the items on page 2 of his handout could have been included but he "thought they were too soft and squishy." He stated that if the Board asked them to revise, cut, add or rewrite the original plan to include all or some of these things they would do that but it wasn't what they were initially asked to do. He reported on these items and said that many are already in use and he expected they would increase the medical system's financial base substantially. These items include the following:

- Contract renegotiations of two payers, improve earnings \$600k annually.
- Additional anticipated cost report settlements, \$1.5M
- Physician risk contracts, \$600k annually
- MSSP risk transfer
- Acute sitter reductions
- SES funding, \$3-4M
- Additional trauma funding, \$3-6M
- Expanded Ability To Pay Program (ATTP)
- Consolidation of emergency rooms
- Closure of Care A Van (mobile medical services)

Mr. Hillard also discussed specifics and numbers on the delivery system, health plans, 2000-2002 major capital projects infrastructure improvements and abatements, the Comprehensive Health Center (CHC), the expectations and realities of buying Desert Vista, the unfunded fund balance, accounts receivable indicators, labor productivity improvements for Health Plan FTE's and MMC FTE's. He said they will change their IT server on December 1 and this move to a new vender will result in a cash savings of more than \$100,000 a month. So far, Desert Vista has consistently lost money although he feels this will turn around. He believes that indicators are trending in the right direction, and they will break even for the year rather than lose money again. He said that he and his staff are dedicated to not having to have a General Fund subsidy for this year.

From the results shown in only three months time, Mr. Hillard strongly believes that the Turn Around Plan will accomplish it's projected goals. Discussion ensued on changes planned and possible for the various systems in different parts of the Valley.

Supervisor Wilson said it would be important to identify the "line" at which point "enough becomes enough" because while everyone would rather keep the health system open safeguards must be taken so the County is not bankrupted because of it.

Mr. Hillard agreed and said that he and everyone on his management team would pledge to "stand beside you to do whatever needs to be done."

Chairman Stapley affirmed with Mr. Hillard that he and his staff would be willing to look at the Turn Around Plan with management and Deloitte to make any necessary modifications to quicken results. He said that one thing that stood out in his mind from Leo Kessler's reports was the necessity to "hit hard at the points that are bleeding" and he would like to see this turned into action. He felt that one of the biggest hurdles is that the hospital is so antiquated and said the question then becomes where and how is the right way to rebuild the system.

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Mr. Hillard reiterated his earlier question to the Supervisors, saying "What is the mission, what is the vision for Maricopa Medical Center?" He feels this vision must be ascertained, decisions made and a plan activated.

Discussion ensued ranging from giving the system a year to turn around to giving an additional 60 days and making a determination. The Senior Select plan was discussed and whether to keep it or get rid of it because it is losing so much money. Mr. Hillard said he would like to keep the residual benefits and lose the risk of running the plan and he feels he is devising a method with a 50-50 chance of doing that.

Chairman Stapley said that what he heard from OMB and management was that the hospital system is not going to make it and what he heard from Mr. Hillard was that his team thinks they can make it. He asked the two groups to meet as soon as possible and work together to see what compromises can be worked out as efficiently and as quickly as possible.

Bill Bruno, Hospital Board member, said he had enjoyed serving on the Hospital Board and said it had been exciting and challenging as well as frustrating in that the services being provided and the facilities are not something he feels comfortable in continuing to offer the public without improvements being made. He felt it would be necessary to either make it a center of excellence or scale it down. He indicated that each year about this time he gets excited about going to the legislature to lobby for improvements and then the County pulls the plan. He said he hopes that by getting the two Boards together both will have a clearer understanding about what the agenda is if legislative remedies are going to again be sought after.

Chairman Stapley said that the legislative plan had been pulled "because we didn't have the votes to get it passed on the floor" and he was sorry that members of the Hospital Board hadn't been informed.

Chuck Shipley, Hospital Board Member, said he is the Chairman of their Strategic Planning Committee and they have been working under the premise that Maricopa County wants to stay in the health care delivery business. He said, "If this changes we need to know that." He felt that the Hospital Board is always "behind the curve" and that things are done that he wasn't even aware were being considered. He would like to have a better understanding of the role they are expected to play. He also believes that the Boards need to share the same understanding of the rules applied when it comes to monies from the different health systems being run through the General Fund for disbursement back into the system.

Dr. Mark Cannula thanked the Supervisors for their recognition of MedPro's contribution and cited the long-term relationship that has been in place. He said that he may not always agree with Mark Hillard but he had to disagree with his earlier statement that the health system's improvement is not through anything that he (Mark) has done. He lauded Mr. Hillard's views on the potential leadership position to be attained by the hospital. He said, "Finally we're starting to have a consistent view of the health system as one of excellence." Dr. Cannula explained that this change of attitude in management has greatly enhanced the workplace for all of them. He cited two issues, the first being education. He said that residencies are not being filled nationwide but they are being filled at MIHS. He asked how this was coming about, and answered his own question by affirming that the leadership qualities and abilities exhibited from the hospital side and their dedication to education was the catalyst. He said that MIHS is nationally recognized as a center of education and they have been the longest-standing educators in the State of Arizona. This is something that he admitted is not widely realized. The reality is that Arizona is 32<sup>nd</sup> in physicians per population – in the bottom third. The National Health Institute recommends one physician for every 400 people and in Arizona we have one for every 600 in population. He said that 80% of those that MIHS educates in medicine stay in Arizona and asked, "Can you put a value on that?" He said that realtors would

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tell you that people moving to the Valley ask about four things. They are cost of living, crime, school systems and health care. He explained that with 21,000 people moving to Phoenix every three months the city is outgrowing its ability to provide good healthcare and this needs to be realized and expanded.

His second point was finances. He said that only Texas is doing worse than Arizona when it comes to the uninsured. He explained that physicians partnering with Mark Hillard on his Ability To Pay plan is beginning to show positive results. He also indicated that for the doctors to partner with a health system involves a lot of trust because such a partnership is not a common one. He referenced Supervisor Brock's remarks on centers in the nation that are making money. He said he didn't know of any medical center anywhere that is making money without some tax dollars and/or dispropor share dollars coming directly to them and that any that are in the black have a partnership between management and the physicians in place. He said he truly believes MIHS can become successful but the physicians have to help come up with the solutions that will make it happen, and physicians must also be willing to share the risks as well as the rewards. He indicated that in his 12 years with the County hospital this is the first time he has come before the Board of Supervisors and said, "I can tell you that five years ago we wouldn't have had this discussion. We're here to help and we want to work with you because we trust the team that you have before you."

Chairman Stapley thanked Dr. Cannula and the Hospital Board Members for attending and for their dedication and input. He asked for continued input and future meetings to continue the discussion.

**MEETING ADJOURNED**

There being no further business to come before the Board, the meeting was adjourned.

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Don Stapley, Chairman of the Board

ATTEST:

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Norma Risch, Deputy Clerk of the Board